Paper markets and derivatives

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Swaps, cracks and spreads

The physical market in Singapore is surrounded by a much larger paper market. Its main instrument is the swap, a contract in which one party pays a fixed price and the other pays the average of a MOPS assessment over a future month. A refiner that expects to sell gasoil next month can sell a gasoil swap today and thereby lock in the price. An airline that will buy jet fuel can buy a swap. If prices fall, the refiner receives a payment under the swap that offsets the lower price of its physical sales, while the airline makes a payment that offsets its cheaper purchases. The swap thus transfers price risk without the delivery of any oil.

Traders build more elaborate positions from the same elements. A crack spread is the difference between the price of a product and that of crude, which represents the gross margin of a refiner. A refiner can sell crack swaps to lock in its margin, while a trader who expects margins to widen can buy them. East-West spreads compare prices in Singapore with those in Europe and indicate whether cargoes should move from one region to the other. Time spreads compare prices for different months and show whether the market is in contango, which rewards storage, or in

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backwardation, which rewards the immediate sale of stocks. These instruments link the paper market to the physical decisions of refining, storage and shipping described earlier in this chapter.

The paper market also supports the role of Singapore as a benchmark. Because swaps settle against MOPS, banks and traders who deal in them have an interest in observing and influencing the physical market from which MOPS is derived. Many have their Asian energy desks in Singapore for that reason. The concentration of physical and paper trading in one city gives Singapore a depth of expertise that Chapter V of this part examines in connection with the trading houses.

From SIMEX fuel oil to cleared swaps

Singapore's first attempt at an exchange-traded oil contract came from the futures exchange whose financial contracts Chapter II of Part D describes. The Singapore International Monetary Exchange launched a fuel oil futures contract in 1989.[1] It still traded in 1998, when SIMEX abolished minimum commissions for its fuel oil futures alongside its Nikkei and Japanese government bond contracts, as Chapter IV of Part D records.[2] The contract never achieved the liquidity of the London and New York oil futures. Participants preferred to hedge with over-the-counter swaps tailored to their exposures, priced against Platts.

The solution came through clearing. In May 2006 the Singapore Exchange launched SGX AsiaClear, Asia's first clearing platform for over-the-counter contracts, which initially cleared oil swaps and forward freight agreements.[3] Clearing allowed parties to negotiate swaps bilaterally and then submit them to a central counterparty, which assumed the credit risk in exchange for margin. The model suited a market in which participants valued the flexibility of swaps but feared the default of their counterparties, a fear that the global financial crisis of 2008 would sharpen. ICE and CME, the two global exchange groups, also offer futures and cleared swaps on Singapore products, which allow participants to hold their Asian and Western positions with the same clearing house. ICE operates a Singapore exchange and clearing house of its own, ICE Futures Singapore and ICE Clear Singapore.[4]

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SGX's commodity business has since grown well beyond oil, in particular into iron ore and freight. In its financial year to June 2026, SGX reported 78.8 million commodity derivatives contracts across all its commodity products.[5] For the oil market, the location of clearing matters less than the location of the reference price. Wherever a swap is cleared, its value depends on what happens each afternoon in the Singapore window.

Regulation of commodity derivatives

The regulation of commodity derivatives in Singapore has been consolidated under MAS. Before 2018, the oversight of commodity derivatives lay with Enterprise Singapore and its predecessor under the Commodity Trading Act. The Securities and Futures (Amendment) Act 2017, most of whose provisions came into force in October 2018, transferred the oversight of commodity derivatives to MAS, completed the post-crisis reform of over-the-counter derivatives regulation and introduced the regime for financial benchmarks.[6] Dealing in commodity derivatives now forms part of dealing in capital markets products, an activity that requires a capital markets services licence unless an exemption applies. Chapter I of Part E sets out that regime.

The practical consequences for oil traders are considerable. A trading house that deals in oil swaps with third parties must consider whether it carries on a regulated activity in Singapore or falls within an exemption for dealings with accredited or institutional investors or for hedging its own commercial exposure. Reporting obligations apply to certain over-the-counter derivatives transactions booked or traded in Singapore. The market misconduct provisions of the Securities and Futures Act, including the prohibitions of false trading and market manipulation, apply to derivatives and may extend to conduct in the physical market that affects their price.[7] A trader who places misleading bids in the Platts window to move the settlement price of a swap position therefore takes a regulatory as well as a commercial risk.

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Notes

1. SIMEX launched a high sulphur fuel oil futures contract in February 1989; later contracts included Brent crude and Dubai crude futures. ↩
2. MAS, *Annual Report 1998/99*, p. 56: abolition of the minimum commission structure for the Nikkei-225, Nikkei-300, JGB and fuel oil futures contracts with effect from 5 February 1998. ↩
3. Wikipedia, "Singapore Exchange" (accessed November 2026): "In May 2006, SGX launched Asia's first over-the-counter (OTC) clearing platform named SGX AsiaClear", which "introduced OTC trade registration and clearing for a wide range of forward freight agreements (FFA), and oil swaps". ↩
4. Wikipedia, "Intercontinental Exchange" (accessed November 2026): ICE Futures Singapore listed among ICE's market subsidiaries and ICE Clear Singapore among its clearing houses. ↩
5. SGX Group, results for the financial year 2026 (6 August 2026): commodity derivatives volume of 78.8 million contracts; figure taken from Part D, Chapter II (Mondo Visione, 6 August 2026). ↩
6. Clifford Chance, "Major Changes to Singapore Capital Markets Regulatory Framework Implemented", October 2018, pp. 1–2: the Act was "passed by Parliament on 9 January 2017"; most amendments "operative from 1 and 8 October 2018"; "Regulatory oversight of commodity derivatives, which was previously under the purview of Enterprise Singapore under the Commodity Trading Act, has also been transferred to MAS under the SFA"; new regimes for OTC derivatives and financial benchmarks. ↩
7. Securities and Futures Act 2001, Part on market conduct (in particular ss. 197 and 198 on false trading and market rigging and on market manipulation) as applied to derivatives contracts after the 2018 amendments. ↩

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